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4 October 1960

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MEMORANDUM FOR: Acting Chief Developments Branch, DPD

SUBJECT : Contract with [REDACTED] K1A

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1. A meeting was held on 26 September 1960 by [REDACTED] and myself with [REDACTED] Comptroller of [REDACTED] for the purpose of seeking an area of agreement with respect to [REDACTED] claims for past work and to establish a contractual format for future work by [REDACTED] to complete the twin engine modification program. 25X1A

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2. These protracted and detailed discussions led me to the following conclusions:

(a) The Agency has a legal responsibility to reimburse [REDACTED] for work which it performed at the request of our representatives under its existing fixed price contract where there was an extension of the scope of the work originally agreed to between the parties. The specific items are being listed in a report to you from [REDACTED]. I have reviewed this list and can advise you that there is not any legal objection to the payment of the costs which [REDACTED] as the Agency's technical representative, believes to be actual and reasonable. The use of FY 59 funds would be proper if the changes were initiated during that period. 25X1A

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(b) At my request the company executives provided a detailed explanation of their cost accounting system as applied to our work. They certified, in response to my specific inquiry, that the costs they were claiming had actually been incurred, and stated that they would welcome our audit of their books. The company's cost accounting system appears adequate to accumulate and report in a current and orderly fashion the costs which they have claimed to date as well as costs which they would incur in further work on the twin [REDACTED] program. 25X1A

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(c) There is considerable further work which the company proposes to do to complete the twin [REDACTED] program to the satisfaction of our technical people. This work appears to be of a developmental character and should be performed under a form of contract which permits individual costs to be identified. This could be accomplished by a cost type contract or by a fixed price contract redeterminable upward and downward and subject to audit at the option of the Contracting Officer. 25X1A

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3. I have discussed the [REDACTED] twin contractual situation with the General Counsel, Mr. Houston. We recommend that the existing fixed price contract be terminated and replaced by a new contractual arrangement which is better designed to deal with developmental costs in connection with further work on the twin [REDACTED] program. We believe that the payment of costs incurred to date can be explained more adequately when associated with a new undertaking. It seems evident that the concept and the Government's requirement under which the original fixed price contract was made have changed so greatly that the original contractual vehicle is no longer suitable to express the new objectives.

4. If you desire, we shall be glad to assist your technical people in working out a suitable new contractual framework and in making appropriate arrangements with the Agency's procurement people for their execution of such a contract with the [REDACTED] corporation. Because of the history of this and other procurements from [REDACTED] it would seem best that the contracting parties be the same as those in the existing fixed price contract.

[REDACTED]  
Assistant General Counsel

cc: OL/PD/SPS [REDACTED]